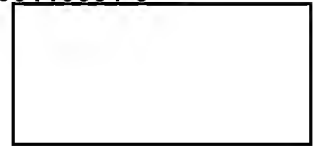


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DIRECTORATE OF  
INTELLIGENCE

# *Central Intelligence Bulletin*

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State Department review completed

No 42

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IRAQ: Prospects for negotiations on compensation for the nationalized assets of the Iraq Petroleum Company (IPC) have improved.

The IPC companies apparently have accepted a proposal by the secretary-general of the Organization of Petroleum Exporting Countries (OPEC) for a 90-day moratorium on legal action against any consignee of the nationalized oil. They also agreed to pay taxes on oil produced prior to the nationalization. Although the companies will be permitted to resume shipping nationalized oil during the moratorium period, all but the French partner, CFP, may be reluctant to lift the oil which would reward Iraq financially. Moreover, the companies have alternative sources of oil they consider more profitable.

CFP probably will lift oil during the talks as a result of the French-Iraqi agreement announced last weekend. Iraq is committed to supply CFP with 23.75 percent--its share of IPC--of the production from the nationalized fields for ten years from 1 June 1972 at pre-takeover costs. The agreement apparently fell short of Iraq's apparent goal of having CFP break completely with its partners, but it preserves France's special position.

Iraq's short-term financial position has been strengthened by the agreement of the Organization of Arab Petroleum Exporting Countries (OAPEC) to loan Baghdad \$135 million over three months beginning 1 June. The amount is approximately equivalent to taxes that the nationalized oil production would have yielded over that period.

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UK: Speculation by a Labor Party spokesman that devaluation is likely within the next two months has triggered heavy selling of sterling.

A strong denial by Chancellor of the Exchequer Barber has had little calming effect. After several months of relative strength following the Smithsonian Agreement last December, sterling has weakened on world financial markets; by mid-day yesterday it was selling at US \$2.5830. This placed the pound nearly one percent below its par value, but still well within the 2.5-percent devaluation allowed by the Smithsonian Agreement. Dealers reported heavy trading, and the Bank of England and most European central banks were supporting the pound.

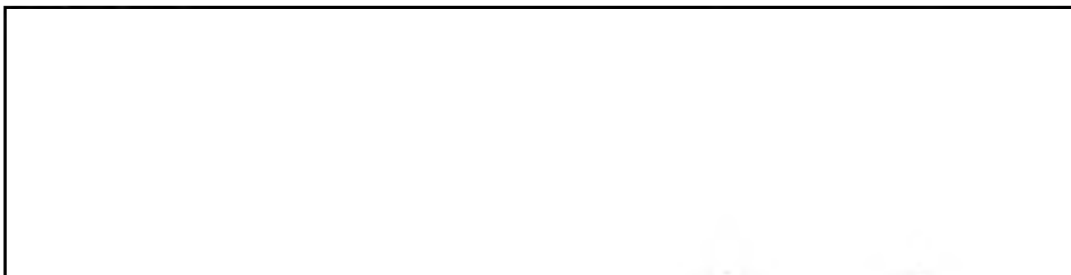
The Heath government is faced with a dilemma regarding sterling. Devaluation when the UK has a surplus in its current account would be opposed by deficit nations, including the US, but economic pressures on the pound are substantial. London's visible trade balance continues to worsen, and several respected British economists assert that the effects of rapid wage inflation and the foreign exchange costs of EC entry will necessitate a devaluation.

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SCANDINAVIA - EAST GERMANY: The Nordic countries agree that recognition of East Germany is a matter of timing rather than of principle.



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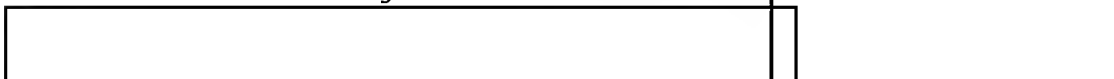
On 1 June, the Danish parliament defeated a leftist resolution demanding immediate recognition of the GDR but it adopted a motion calling for improved relations with Pankow aimed at eventual recognition.

Norwegian Foreign Minister Cappelen said in April that his government would wait until Bonn settled the issue of the Eastern treaties, which were ratified in May. Apart from timing, Cappelen saw "no disagreement" between his government's position and that of other Scandinavian countries regarding recognition of the GDR.

The Finns, in keeping with their policy of neutrality, do not recognize either Germany. Last fall, however, they kicked off the recognition competition by offering treaties to both capitals. The Finnish offer gave Bonn veto power, which ended the affair at that time. The dual recognition gesture also carried a claim for reparations from both Germanies. This was repugnant to the East Germans, who disclaim any responsibility for Nazi excesses. On 9 June, however, Helsinki reiterated its desire to recognize both Germanies

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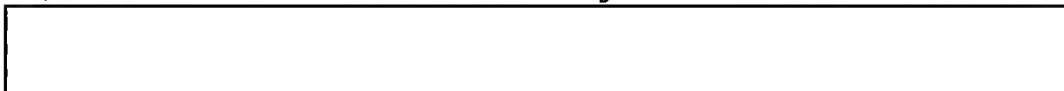
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Recognition of East Germany is a popular issue with the Nordic left, on whom the governments of Scandinavian states are dependent for remaining in power. In addition, some states hope to gain favor with Moscow or to accrue trade advantages. If one Nordic state recognizes Pankow, the others will be under severe pressure to follow suit. The West Germans would prefer that these countries hold off until Bonn and Pankow have agreed to a general treaty regularizing their mutual relations. Bonn may be able to prevent a breach in the Nordic non-recognition of the GDR if it chooses to apply political and economic leverage, but the Nordic states' actions also put pressure on West Germany to make concessions in its negotiations with Pankow.



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DISARMAMENT: Moscow may want some progress toward an agreement to limit chemical weapons at the summer session of the Conference of the Committee on Disarmament (CCD).

The Soviet cochairman of the CCD asked his US counterpart on 19 June whether a compromise solution could be found to the chemical weapons problem. He also indicated that Moscow may be ready to explore technical issues related to adequate verification. In an earlier conversation, the Soviet cochairman reportedly remarked that the USSR was prepared to consider partial measures in the chemical weapons field, perhaps in reference to the US idea of first controlling those chemical substances that would be easiest to monitor.

On other issues, there are few signs that the current session will be productive. The Soviet cochairman made it plain that his government's position on a comprehensive test ban remained the same, although he anticipated an active discussion of the matter. He asserted the desirability of additional measures to prevent an arms race on the ocean floor, measures that the US considers unnecessary. He also reiterated support for the idea of a world disarmament conference and expressed surprise that the US was still skeptical about it since such a meeting was mentioned in the Moscow joint communiqué. Finally, on the question of reorganizing the CCD to permit Chinese participation, the Soviet cochairman remarked that some changes would not improve but could undermine the CCD. He thought, however, that it would be "sensible" for the CCD to show a flexible attitude toward possible future changes in its report to the UN General Assembly.

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UGANDA: President Amin has abruptly ended a tour of north Africa, apparently because of growing unrest at home.

Amin cut short a visit to Libya on Sunday and canceled plans to attend a meeting of leaders of the Confederation of Arab Republics in Egypt. He had been holding talks with President Qadhafi following the OAU summit in Rabat and a brief stopover in Tunisia. Amin, who broke relations with Israel last March, has since been making increasing efforts to align Uganda with the Arabs. He would only reluctantly give up a chance to meet with Sadat, Qadhafi, and Syria's President Asad.

Coup rumors have been increasing in Uganda; Amin himself made a veiled reference to them after his return. [REDACTED]

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[REDACTED] The government is still troubled by the unruly and tribally divided army. There also is considerable public dissatisfaction over a serious crime wave, growing unemployment, shortages of consumer goods, rising prices, and deteriorating government services. So long as Amin retains control of key army units that were responsible for his coup in January 1971, he probably will manage to hold on to power. The undisciplined state of the army and Amin's own unpredictable behavior make for an uneasy relationship, however, and the General's control of the country through the army remains tenuous. [REDACTED]

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NIGERIA: Lagos' increasing leadership role in Africa is inspiring it to make a stronger effort to influence the nature of future links between Commonwealth countries and the European Communities, following Britain's entry. The Nigerians will lobby particularly against the Africans granting the EC preferential access to their markets, an arrangement also opposed by the US.

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Lagos has long opposed the granting of any preferences to the EC by African countries. The Nigerians see such discrimination as a serious barrier to inter-African trade and to their politically popular efforts to promote greater African unity. Although Nigeria is prepared to reject association with the EC for itself if EC terms hinder African economic integration, other African Commonwealth countries lack such flexibility. Lagos apparently now realizes that its active participation in Commonwealth-EC negotiations may be necessary if its ambitions for an effective West African economic grouping, including both English-speaking and French-speaking African countries, are to be achieved.

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YUGOSLAVIA: Indecision over how to improve the political reliability of young people has forced postponement of a party conference from July to October.

Youth leaders meeting in Belgrade on 19 June announced that, despite five months of deliberations, they are not yet prepared for a full-scale discussion of the problems. Moreover, the new regional leaders in Belgrade, Zagreb, Ljubljana, and Pristina need more time to shore up their local bases of support.

The party decided to turn its attention to youth affairs following the student strike that set off the crisis in Croatia last December. Subsequent signs of discontent among youth elsewhere have heightened the party's concern.

The postponement announcement was accompanied by word from the youth meeting in Belgrade that young people will be given an opportunity to discuss preparations for the party conference. President Tito, who has been preoccupied with foreign affairs, most likely will be exasperated at this turn of events. His advisers may convince him that the delay is necessary, but they will have their hands full persuading him that opening the preparations to the student community is justified. Tito has regarded student activists with considerable personal distaste since the events in Croatia.



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VIETNAM: Aerial photography of 14 June shows that construction is proceeding rapidly on the petroleum pipeline from Ping-hsiang into North Vietnam. The pipeline now extends as far south as Dong Dang. A short segment is also visible at Cao Nung, about 35 miles south of Dong Dang. The capacity of the petroleum storage area at Ping-hsiang is being expanded, and dispersed storage tanks were also noted in earlier photography of Cao Nung.


\* \* \* \*

JAPAN: Liberal Democratic Party Executive Board chairman Nakasone's endorsement of International Trade and Industry Minister Tanaka enhances the latter's prospects in the upcoming succession election. Nakasone also informed Prime Minister Sato on 19 June that he is withdrawing as a candidate in the party contest scheduled for 5 July. Most of Nakasone's 42 faction members are strongly pro-Tanaka, and his entry on the first ballot would have initially denied Tanaka a sizable bloc of votes. Nakasone's move does not assure Tanaka's victory, but it will force Foreign Minister Fukuda, the other leading contender for the prime ministry, to intensify his efforts to win over the still-uncommitted factions and to forestall any bandwagon rush of support to Tanaka.

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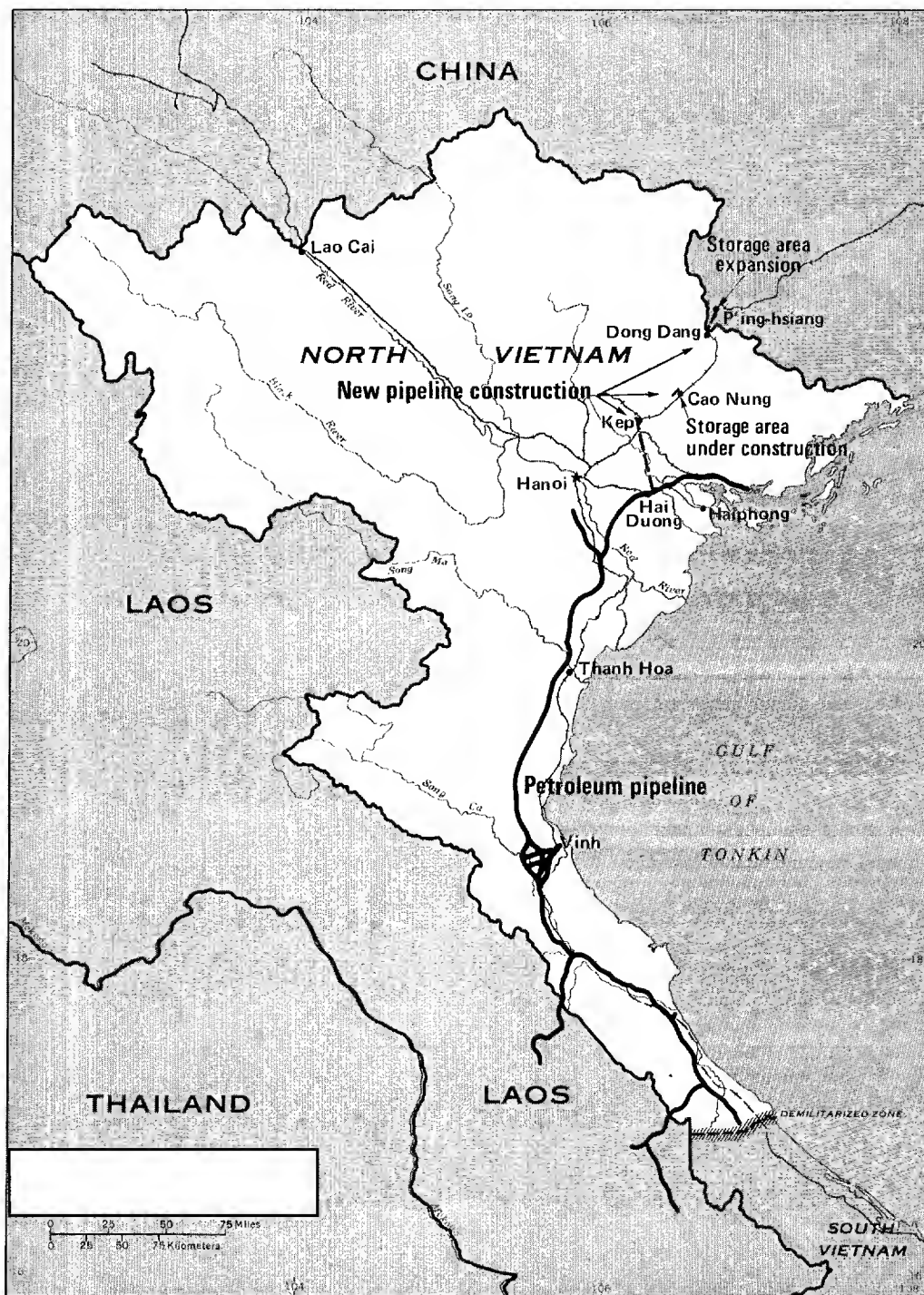
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